December 31, 2007

2007 Year End Review

Investors during 2007 saw a little bit of everything and experienced a wild ride during much of the year. Stocks reached an all time high, dropped a thousand points, reached another all time high, then sold off yet again at the end of the year. Bonds rose for the year as questions about the U.S. economy mounted, although many individual issues suffered as mortgage troubles worsened.

The high level of volatility in the stock market has come from two main causes: the sub prime mortgage meltdown and resulting housing weakness; and oil's continued price rise to triple digits. Each of these items causes problems in different ways. The sub prime mortgage problems, in addition to the obvious losses suffered by lenders, contribute to drops in housing prices. A falling housing market makes a large part of people's net worth go down, making people feel poorer, thus spending less money. This results in a slowing economy and fears of recession. Increasing energy costs also make consumers feel poorer while also adding to fears of inflation as these higher costs are passed on by businesses.

This tug of war between recession fears and inflation fears causes tremendous uncertainty in both the stock and bond markets. Anytime there is uncertainty, there is volatility. The uncertainty is made worse by the fact that nobody knows the scope of the mortgage problems or how high oil prices will go. The ever present doomsday predictors have been getting a lot of media attention lately, although reality is rarely as bad as some predict. We have been saying for a long time that the housing market was over bought and due for a correction, so this has not been a surprise, although the depth of the mortgage crises has been unexpected. Likewise, the increasing cost of energy was the one thing a year ago that we felt was the most likely to present a challenge to the economy.

We feel we are at an important crossroads for the capital markets. How they perform during 2008 will depend much on whether there are more surprises in store on the sub prime mortgage front, as well as how high energy prices rise. We expect the mortgage problems to be around at least for the first half of this year. Hopefully, at that time, we will have a better idea of the scope of the problem. If history teaches us anything, it's that times like these are not unusual in investing and that patient investors are rewarded in the long run.

We also wanted to take some time to talk about Wabash Capital on the occasion of our tenth anniversary, which was this past November. It has been an eventful ten years, not only for the owners, employees, and clients of our firm, but also for the capital markets and the country as a whole.

During these ten years we have experienced the worst bear market period in stocks in thirty years and one of the three worst in the past one hundred years. We saw the last years of one of the greatest bull markets in history as the internet economy caused technology stocks to explode in price. In the bond market, we've seen historically low interest rates with short term rates less than 1%.

In non investment news, the past ten years have seen the beginning of a new century, the horrors of the September 11th attacks on our nation, and the U.S. involvement in war. Oil was ten dollars a barrel ten years ago; now it's one hundred dollars a barrel.

There have also been tremendous changes here at Wabash Capital. At the end of 1997, after two months of business, we had approximately $2 million under management. Today, including our interest in The Vernalis Group, we have close to $150 million under management. Our three employee firm has become a ten employee, three office firm. Most of those original clients are still with us. We couldn't have done it without you.

In spite of the bear market in stocks, our investors have experienced strong, steady investment performance. While not every pick has been a winner, we have been successful at helping our clients identify and reach their investment objectives. With the benefit of hindsight are there things we would do differently? Probably, but who wouldn't? We couldn't be happier with what has been accomplished over the past ten years.

What will the next ten years look like? Good question. There will undoubtedly be many unexpected events: some good, some bad. There's never been a decade without both. The one thing we are confident about is that Wabash Capital will continue to grow and provide investment advice and management to our clients. We are always looking for ways to improve our service to you and are always open to your comments and suggestions. Please feel free to offer both.

We wish all of you a happy and prosperous New Year. We also remind you that you can request an updated copy of our Form ADV, which has information about Wabash Capital that is on file with the SEC.

Wabash Capital